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DEPARTMENT FOR EUR/SCE (ERIN KOTHEIMER AND YOULIANA IVANOVA);
EEB/IFD/OMA (ANDREW SNOW AND RICHARD FIGUEROA)

PASS TO TREASURY FOR VIMAL ATUKORALA

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TAGS: [EAID](#) [ECON](#) [PREL](#) [AL](#)

SUBJECT: REPORT ON ALBANIA'S FISCAL TRANSPARENCY

¶1. Per Reftel, post submits the following report for the Department's congressionally-mandated report on fiscal transparency in countries receiving USG assistance:

¶2. With continual prodding from the U.S., EU, and International Financial Institutions, the Government of Albania (GOA) has taken steps to improve its fiscal transparency and accountability. The government's budget is made public and interested parties are invited to make suggestions during the drafting period. However, their comments are seldom reflected in the final budget. Upon approval the budget is posted on the Finance Ministry's website and subsequently published in the government's official gazette.

¶3. The budget includes, among other items, all planned revenues and expenditures which do not always match the eventual end-of-the-year fiscal results. In general, the accuracy of the figures remains questionable, which is mainly due to the GOA's lack of capacity on fiscal issues rather than a lack of will.

¶4. Financial data is closely scrutinized by the International Monetary Fund's office in Albania. The IMF closely coordinates with the Finance Ministry on the draft of the government's budget. Albania has agreed to allow the IMF to report on the country's compliance with standards of fiscal transparency. In July 2007, the IMF completed the third review of Albania's economic performance and financing assurances under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement and also the Extended Fund Facility (EFF) arrangement. The IMF's fiscal monitoring of the GOA is currently scheduled to expire in 2009.

¶5. The most important on-going USG project in Albania to improve fiscal performance is the two-year Threshold Agreement approved by the Millennium Challenge Corporation (MCC) in 2006. Albania's Threshold Agreement is a USD 13.85 million assistance project to reduce corruption and improve performance in three key areas of public administration: tax administration, public procurement and business registration. Two important components of the project deal with the lack of transparency in tax collection and public access to the GOA's Electronic Commercial Registry. (Note: A second two-year Threshold Agreement is being negotiated now between the GOA and MCC.) Separately, the EU is offering support to the Institute of Statistics in Albania for data collection. The goal of this initiative is to harmonize the Albanian statistical system with EU standards.

¶6. Albania still suffers from a lack of consistency in its tax legislation as well as a vague state of affairs in tax administration and the implementation of fiscal laws. In 2008, the GOA approved a controversial fiscal scheme that included different reference prices for goods and profit levels for businesses in an attempt to fight informality. The new law on tax fines (which requires payment of the full tax assessed and 15 percent of the

fines imposed before an appeal can be made) has caused controversy in the business community and is being appealed to the country's Constitutional Court.

¶17. In 2007, Parliament approved new public procurement legislation which aims to strengthen the independence and transparency of the Public Procurement Agency and the appointment of a public procurement ombudsman. However, legal enforcement of this and other economic laws remains problematic. The establishment of a new joint investigative unit to fight economic crime and corruption in the Tirana Prosecutor's Office in May 2007 is a positive development.

¶18. The High Inspectorate for Declaration and Audit of Assets (HIDAA) has made some progress on enforcing asset declaration obligations. However, HIDAA lacks mechanisms to investigate declarations. In general, there is good compliance with the legal obligation to declare assets and private interests but no official has yet been prosecuted for providing false information in an asset declaration form.

¶19. There has been progress by the government in the area of Public Internal Financial Control. In this respect an internal audit law was recently approved by Parliament and proposals were made by the government to introduce the concept of managerial accountability in a new draft Organic Budget Law. Existing Internal Audit units perform mainly control and inspection tasks, indicating that the internal audit profession, which should focus on systems-assessment and advice, is still in the very early stages of development.

¶10. As regards external audit capacities, neither the Constitution nor the Law on External Audit complies fully with the guidelines of the International Organization of Supreme Audit Institutions (INTOSAI), especially regarding the functional and financial independence of the Albanian supreme audit institute. The institute needs to focus on financial and performance audits rather than on inspection activities. Also the independence of the institute needs to be appropriately strengthened. End Report.

WITHERS